



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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Legislative Fiscal Analyst  
CLAYTON SCHENCK

DATE: September 27, 2001

TO: Legislative Finance Committee (LFC)  
Revenue and Transportation Committee (RTC)

FROM: Terry W. Johnson  
Principal Fiscal Analyst

RE: General Fund Status: Fiscal Year End 2001

## INTRODUCTION

The purpose of this report is to provide the committees with preliminary fiscal 2001 ending fund balance data for the general fund account. Although the revenue and disbursement data for the account have been finalized on the Statewide Accounting, Budgeting, and Human Resource System (SABHRS), the GAAP (Generally Accepted Accounting Principles) balance shown in this report reflects only the adjustments made to date by the Department of Administration (DOA). The general fund account has not yet been audited by the Legislative Auditor, as the audited balance is normally finalized in late fall.

This report provides a comparison between budgeted data as developed by the 56<sup>th</sup> and 57<sup>th</sup> Legislatures and what actually occurred in fiscal 2001. Aggregate information is provided on revenue estimates and collections, disbursements and reversions, and an updated fund balance statement for the 2003 biennium. A more detailed analysis on revenue trends and the implications for the 2005 biennium is currently underway and will be the basis for our revenue estimate recommendations to the RTC in November of 2002.

## FUND BALANCE DISCUSSION

The general fund account balance at the beginning of fiscal 2001 was \$193.0 million. The balance used by the 57<sup>th</sup> Legislature was \$176.0 million, which includes the \$17.0 million of negative adjustments made by the DOA to conform with GAAP. Based on House Joint Resolution 2 (HJR 2) revenue estimates and disbursement budgets adopted during the 56<sup>th</sup> and 57<sup>th</sup> legislative sessions, this balance was forecast to decrease to \$110.7 million by the end of fiscal 2001<sup>1</sup>. Total revenues (including one-time transfers) were expected to be less than total disbursements by approximately \$65.3 million.

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<sup>1</sup>Legislative Fiscal Report, 2003 Biennium Volume 1 June 2001, page 25.

As shown in Table 1, the preliminary general fund account unreserved, undesignated balance for fiscal year end 2001 was \$173.5 million, or \$62.7 million above the level anticipated by the 57<sup>th</sup> Legislature. Table 1 also shows the differences between budgeted and actual amounts for revenues, disbursements, and other adjustments.

<p style="text-align: center;"><b>Table 1</b>  <b>General Fund Account</b>  <b>Fiscal 2001 Budgeted Versus Actual</b>  <b>Fund Balance Detail</b></p>				
	Budgeted Amount	Actual FYE 2001	Over (Under) Estimate	Diff. Percent
Beginning Balance	\$176,000,000	\$193,039,541	\$17,039,541	9.68%
General Fund Receipts	1,213,719,000	1,269,471,848	55,752,848	4.59%
Prior Year Rev. Adjustments	0	(17,127,324)	(17,127,324)	na
Residual Equity Transfers	<u>564,000</u>	<u>501,243</u>	<u>(62,757)</u>	<u>-11.13%</u>
Total Revenue	\$1,214,283,000	\$1,252,845,767	\$38,562,767	3.18%
General Fund Disbursements	1,279,554,000	1,268,924,741	(10,629,259)	-0.83%
Non-Budgeted Disbursements	0	(8,535)	(8,535)	na
Prior Year Exp. Adjustments	<u>0</u>	<u>1,005,697</u>	<u>1,005,697</u>	<u>na</u>
Total Disbursements	\$1,279,554,000	\$1,269,921,903	(\$9,632,097)	-0.75%
Fund Balance Designated	0	0	0	na
Other Fund Balance Adjustments	<u>0</u>	<u>(2,509,732)</u>	<u>(2,509,732)</u>	<u>na</u>
Total Adjustments	0	(2,509,732)	(2,509,732)	na
Ending Balance (Preliminary)	\$110,729,000	\$173,453,673	\$62,724,673	56.65%

## **REASONS FOR DIFFERENCES**

### **REVENUE ESTIMATES AND COLLECTIONS**

Column 1 of Table 2 shows the fiscal 2001 revenue estimates for the general fund account as adopted in HJR 2 during the 2001 legislative session. The adjacent columns in the table show actual collections, the amount collections were over or (under) the estimate, the estimation difference percentage, and the contribution percent. The contribution percent signifies the importance of each revenue component to the general fund account. For example, individual income taxes were 44.4 percent of the total general fund collections while wine taxes accounted for only 0.08 percent during fiscal 2001. This column of information shows that about 67.1 percent of general fund revenue collections in fiscal 2001 came from individual (44.4%), property (14.4%), and corporate (8.3%) taxes.

**Table 2**  
**General Fund Receipts By Major Component**  
**Fiscal 2001**

Revenue Category	Estimated 2001 Receipts *	Actual 2001 Receipts	Over(Under) Estimate	Percent of Est. 2001	Contribution Percent
Driver's License Fee	\$2,165,000	\$1,895,595	(\$269,405)	87.56%	0.15%
Insurance Tax & License Fees	40,810,000	42,297,647	1,487,647	103.65%	3.38%
Investment License Fee	6,081,000	5,888,594	(192,406)	96.84%	0.47%
Vehicle Tax	0	0	0		0.00%
Motor Vehicle Fee	12,954,000	12,534,173	(419,827)	96.76%	1.00%
Nursing Facilities Fee	5,533,000	5,655,978	122,978	102.22%	0.45%
Beer Tax	386,000	384,630	(1,370)	99.65%	0.03%
Cigarette Tax	8,222,000	8,284,722	62,722	100.76%	0.66%
Coal Severance Tax	8,918,000	8,663,128	(254,872)	97.14%	0.69%
Corporation Income Tax	83,149,000	103,670,487	20,521,487	124.68%	8.27%
Electrical Energy Tax	4,562,000	4,057,952	(504,048)	88.95%	0.32%
Wholesale Energy Tax	3,500,000	3,503,427	3,427	100.10%	0.28%
Railroad Car Tax	1,665,000	1,555,747	(109,253)	93.44%	0.12%
Individual Income Tax	545,356,000	556,014,554	10,658,554	101.95%	44.38%
Estate Tax	19,691,000	20,285,642	594,642	103.02%	1.62%
Metalliferous Mines Tax	4,063,000	3,417,475	(645,525)	84.11%	0.27%
Oil & Natural Gas Production Tax	14,188,000	25,791,723	11,603,723	181.79%	2.06%
Public Contractors Tax	1,887,000	791,615	(1,095,385)	41.95%	0.06%
Property Tax	175,065,000	180,050,247	4,985,247	102.85%	14.37%
Telephone License Tax	0	133,410	133,410		0.01%
Telecommunications Excise Tax	19,619,000	18,838,200	(780,800)	96.02%	1.50%
Tobacco Tax	2,137,000	2,047,995	(89,005)	95.84%	0.16%
Video Gambling Tax	20,742,000	20,891,449	149,449	100.72%	1.67%
Wine Tax	1,059,000	1,032,812	(26,188)	97.53%	0.08%
Public Institution Reimbursements	11,755,000	13,553,585	1,798,585	115.30%	1.08%
Highway Patrol Fines	4,096,000	3,980,688	(115,312)	97.18%	0.32%
Treasury Cash Account Interest	17,703,000	21,531,903	3,828,903	121.63%	1.72%
Local Impact Interest	0	82,834	82,834		0.01%
Liquor Excise & License Tax	7,534,000	7,342,732	(191,268)	97.46%	0.59%
Liquor Profits	5,659,000	5,900,000	241,000	104.26%	0.47%
Coal Trust Interest	39,117,000	37,659,527	(1,457,473)	96.27%	3.01%
Common School Interest and Income	47,924,000	46,845,895	(1,078,105)	97.75%	3.74%
Lottery Profits	6,197,000	6,137,493	(59,507)	99.04%	0.49%
Long Range Bond Excess	0	0	0		0.00%
Tobacco Settlement	15,677,000	15,989,101	312,101	101.99%	1.28%
US Mineral Royalty	27,845,000	31,007,874	3,162,874	111.36%	2.47%
All Other Revenue	48,460,000	51,753,019	3,293,019	106.80%	4.13%
<b>Total Current Year Revenue</b>	<b>\$1,213,719,000</b>	<b>\$1,269,471,853</b>	<b>\$55,752,853</b>	<b>104.59%</b>	<b>101.33%</b>
Prior Year Adjustments	0	(17,127,324)	(17,127,324)		-1.37%
Residual Equity Transfers	<u>564,000</u>	<u>501,243</u>	<u>(62,757)</u>	<u>88.87%</u>	<u>0.04%</u>
<b>Total Revenue</b>	<b>\$1,214,283,000</b>	<b>\$1,252,845,772</b>	<b>\$38,562,772</b>	<b>103.18%</b>	<b>100.00%</b>

\* House Joint Resolution 2 estimates as adjusted for enacted legislation.

At the end of Table 2, prior year adjustments and residual equity transfers are shown, providing a complete picture of the total revenue flow in the account. When revenues are received by the state, agency personnel have three ways to account for collections on SABHRS:

- 1) If the tax or fee remitted by the taxpayer is for the current year tax liability, the revenue is recorded as current year collections.
- 2) If the tax or fee is due for the previous years' tax liability, the revenue is recorded as a prior year revenue adjustment. Current and prior year revenue amounts are maintained and reported separately on SABHRS.
- 3) The third way revenues are deposited (transferred) to an account is by a transaction called a residual equity transfer. This type of transaction allows an agency to transfer monies from one account to another when the revenue has been previously recorded in the original account.

Table 3 shows aggregate revenue estimates and collections for the general fund account. The 57<sup>th</sup> Legislature adopted a total fiscal 2001 general fund account revenue estimate of \$1,214.3 million, including anticipated prior year adjustments and residual equity transfers. Total collections were \$1,252.8 million or \$38.6 million (3.2 percent) above the estimated amount.

<p style="text-align: center;"><b>Table 3</b> <b>General Fund Revenue Recap</b> <b>Fiscal 2001</b></p>					
Account	Revenue Category	Estimated Receipts	FYE 2001 Receipts	Over (Under) Estimate	Diff. Percent
01100	General Fund Receipts	\$1,213,719,000 *	\$1,269,471,848	\$55,752,848	4.59%
	Totals Before Adj. & Trsf.	\$1,213,719,000	\$1,269,471,848	\$55,752,848	4.59%
---	Prior Year Adjustments	0	(17,127,324)	(17,127,324)	
---	Residual Equity Transfers	<u>564,000</u>	<u>501,243</u>	<u>(62,757)</u>	<u>-11.13%</u>
	Totals After Adj. & Trsf.	\$1,214,283,000	\$1,252,845,767	\$38,562,767	3.18%
* House Joint Resolution 2 estimates as adjusted for enacted legislation.					

Total current year revenue collections were \$55.8 million above the amount anticipated by the 57<sup>th</sup> Legislature. Table 3a summarizes which sources of revenue exceeded expectations and provides a brief explanation of why collections were higher than anticipated. As shown in Table 3a, audit collections, energy prices, and higher investable cash were the economic forces behind stronger revenue growth. As mentioned in the introduction of this report, a more detailed analysis on these revenue trends is currently underway.

<p style="text-align: center;"><b>Table 3a</b>  <b>Reasons for Increased Revenue Collections</b>  <b>In Millions</b></p>		
Revenue Source	Fiscal 2001	Explanation
Corporation Income Tax	\$20.5	Audits, Energy Sector
Individual Income Tax	10.7	Audits, Stronger Income Growth
Oil & Natural Gas Production Tax	11.6	Audits, Higher Energy Prices
Property Tax	5.0	Audits, Higher Energy Prices
Treasury Cash Account Interest	3.8	Higher Cash Balances
US Mineral Royalty	3.2	Higher Energy Prices
All Other Revenue	<u>1.0</u>	-
Total Change	\$55.8	

As shown in Tables 2 and 3, the 57<sup>th</sup> Legislature anticipated there would be a residual equity transfer in fiscal 2001 for \$.564 million. This transfer was anticipated due to the passage of SB 132 by the 1999 legislative session. Based on information from the State Auditor, the Auditor's Office inadvertently overlooked the language in House Bill 2 requiring the transfer to the general fund account. The transfer will be processed in fiscal 2002.

The \$.501 million in residual equity transfers that occurred in fiscal 2001 was due to the elimination of various non-general fund accounts and moving the remaining cash to the general fund account. These transfers were not anticipated during fiscal 2001.

The 57<sup>th</sup> Legislature did not include any prior year revenue adjustments in HJR2. Since this type of revenue is the result of uncollected previous years' activity, it would be difficult to estimate and fiscally unsound to include an estimated amount in the state budget. As shown in Tables 2 and 3, however, prior year revenue adjustments were a negative \$17.1 million. Most of these adjustments were due to the transition to the new SABHRS system in fiscal 2000. As you may recall, many state agencies had an unusually large number of accounting errors in fiscal 2000. To correct these errors and ensure an accurate Comprehensive Annual Financial Report (CAFR), correcting adjustments were made in fiscal 2001 as prior year adjustments.

## **DISBURSEMENTS AND REVERSIONS**

Table 4 shows general fund account disbursements and reversions for fiscal 2001. General fund disbursements (excluding non-budgeted and prior year activity) were \$10.6 million lower than anticipated. Total reversions including non-budgeted disbursements and prior year expenditure adjustments were \$14.3 million. This means total general fund reversions were \$9.6 million above the budgeted reversion amount of \$4.7 million anticipated by the 57<sup>th</sup> Legislature.

Although unexpected reversions of \$9.6 million appear unusually large, a closer look at the details indicate this amount is misleading. Not all of the amount will truly revert since \$3.0

million has already been spent in fiscal 2002 and \$2.3 million is expected to be spent by the end of the biennium. The remaining amount of \$4.3 million is a more accurate figure of unexpected reversions. The primary agencies in which these reversions occurred are: 1) DPHHS (\$2.9 million) – primarily in direct care services and mental health; 2) Corrections (\$0.8 million) - primarily in unspent supplemental authority for secure facilities and public safety; and 3) OPI - \$0.4 million for transportation.

**Table 4**  
**General Fund Account**  
**Disbursements and Reversions**  
**Fiscal 2001**

Account	Category	Budgeted Amount	FYE 2001 Disburse.	Over (Under) Budget	Diff. Percent
01100	General Fund Disbursements	\$1,284,246,000 *	\$1,268,924,741	(\$15,321,259)	-1.19%
---	Non-Budgeted Disbursements	0	(8,535)	(8,535)	na
---	Prior Year Exp. Adjustments	<u>0</u>	<u>1,005,697</u>	<u>1,005,697</u>	<u>na</u>
	Total Disbursements	\$1,284,246,000	\$1,269,921,903	(\$14,324,097)	-1.12%
---	Reversions	(\$4,692,000)	(\$14,324,097)	(\$9,632,097)	

\* General fund disbursements are before adjustments for budgeted reversions of \$4.7 million. Total reversions were \$14.3 million or \$9.6 million more than budgeted.

## FUND BALANCE ADJUSTMENTS

During fiscal 2001, there were adjustments to the fund balance, reserve for advances, inventory reserves, and other SABHRS to GAAP reconciliation items. In total, these adjustments decreased the general fund account ending fund balance by about \$2.5 million (shown in Table 1). Most of these adjustments were processed by the Departments of Revenue, Administration, and Public Health and Human Services.

## SUMMARY

As stated earlier, the preliminary general fund account unreserved, undesignated ending balance for fiscal 2001 was \$173.5 million, or \$62.7 million above the level anticipated by the 57<sup>th</sup> Legislature. The reasons for the increase are summarized in Table 5.

Table 5 Reasons for General Fund Balance Change In Millions	
Explanation of Fund Balance Change	Fiscal 2001
Beginning Balance	\$17.0
Revenue Collections (Actual - Estimated)	55.8
Prior Year Revenue Adjustments	(17.2)
Disbursements (Budgeted - Actual)	10.6
Prior Year Expenditure Adjustments	(1.0)
Fund Balance Adjustments	<u>(2.5)</u>
Total Change	\$62.7

After the preliminary unreserved, undesignated general fund balance was announced, our office received a number of inquiries about the makeup and magnitude of the unexpected surplus. Table 6 shows the total unexpected balance and whether the components contributing to the additional balance could be considered one-time or ongoing events. As our fiscal analysis work proceeds this interim, the one-time versus ongoing designation could change depending on the results of the analysis. Table 6 shows that of the \$62.7 million in unexpected balance, approximately \$25.1 million could be considered ongoing and \$37.6 million should not occur again.

Table 6 Unexpected General Fund Balance Ongoing vs. One-Time In Millions			
Explanation of Fund Balance Change	Fiscal 2001	Ongoing	One-Time
Beginning Balance	\$17.0		\$17.0
Revenue Collections (Actual - Estimated)	55.8	25.1	30.7
Prior Year Revenue Adjustments	(17.2)		(17.2)
Disbursements (Budgeted - Actual)	10.6		10.6
Prior Year Expenditure Adjustments	(1.0)		(1.0)
Fund Balance Adjustments	<u>(2.5)</u>		<u>(2.5)</u>
Totals	\$62.7	\$25.1	\$37.6

It should be noted that the process of segregating the excess balance as one-time or ongoing is a very subjective exercise. For example, are higher energy prices a one-time event or will they continue into the future? This is an example of the questions our office had to address before the information in Table 6 could be developed.

## 2003 BIENNIUM BUDGET

Table 7 shows the revised 2003 biennium estimated ending fund balance for the general fund account. It should be noted that beginning in fiscal 2002, estimated amounts for total revenues and disbursements increase significantly. This change is due to the passage of House Bill 124 during the 57<sup>th</sup> legislative session, in which significant revenues and disbursements related to local government funding are now included in the general fund account.

The projected general fund ending fund balance for the 2003 biennium (\$116.5 million) is \$62.7 million more than the amount estimated at the end of the 57<sup>th</sup> legislative session. This balance incorporates actual revenue and disbursement data for fiscal 2001, and includes revenue and disbursement estimates for the 2003 biennium as budgeted by the 57<sup>th</sup> Legislature.

It should be noted that our office has not attempted to incorporate new revenue trends or potential supplemental appropriation needs into the 2003 biennium budget. Issues that our office is currently aware of and have not incorporated into Table 7 are listed below:

?? Wildfire Costs	(\$8.4) million
?? Continuing Appropriations	(2.3) million
?? Department of Commerce TSEP	(3.0) million
?? Federal Tax Reform	13.3 million
?? State Auditor Transfer	.5 million
?? General Economic Conditions	?

As shown in Table 7, total 2003 biennium revenues are anticipated to be \$2.753 billion while total disbursements for the same period are expected to be \$2.809 billion for a difference of approximately a negative \$56.9 million. This amount represents the structural imbalance as portrayed on the General Fund Status sheet during the 57<sup>th</sup> legislative session. If the designation of ongoing revenues shown in Table 6 is correct, then the 2003 biennium structural balance drops from (\$56.9) million to about a negative \$6.7 million. If the effects of federal tax reform are included, the structural imbalance could be completely eliminated.

The potential of 2003 biennium revenues equaling 2003 biennium disbursements is good news for state government finances. However, this situation could present an issue that both the executive and legislative budgets for the 2005 biennium will need to address. If budgets are crafted so that 2005 biennium ongoing revenues equal 2005 biennium ongoing appropriations, then the general fund account will maintain a significantly higher ending fund balance than normally budgeted for by both the executive and the legislature.

The policy issue that both the executive and 58<sup>th</sup> Legislature will need to discuss will be whether they want to maintain a higher ending fund balance or use some of the excess for one-time revenue and/or disbursement fiscal policies.



Table 7  
2003 Biennium General Fund Balance  
Based on Action By the 57th Legislature With Preliminary Fiscal 2001  
In Millions

	Actual Fiscal 2000	Preliminary Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003	Actual 2001 Biennium	Estimated 2003 Biennium
<b>Beginning Fund Balance</b>	<b>\$109.673</b>	<b>\$193.040</b>	<b>\$173.454</b>	<b>\$101.726</b>	<b>\$109.673</b>	<b>\$173.454</b>
<b>Revenues</b>						
Current Law Revenue	1,163.641	1,269.472	1,198.729	1,210.972	2,433.113	2,409.701
Legislation Impacts	0.000	0.000	206.800	136.065	0.000	342.865
Residual Transfers	<u>0.725</u>	<u>0.501</u>	<u>0.000</u>	<u>0.000</u>	<u>1.226</u>	<u>0.000</u>
<b>Total Revenue</b>	<b>\$1,164.366</b>	<b>\$1,269.973</b>	<b>\$1,405.529</b>	<b>\$1,347.037</b>	<b>\$2,434.339</b>	<b>\$2,752.566</b>
<b>Total Funds Available</b>	<b>\$1,274.039</b>	<b>\$1,463.013</b>	<b>\$1,578.983</b>	<b>\$1,448.763</b>	<b>\$2,544.012</b>	<b>\$2,926.020</b>
<b>Disbursements</b>						
General Appropriations	1,046.100	1,279.554	1,195.810	1,153.313	2,325.654	2,349.123
Statutory Appropriations	39.645		46.262	45.933	39.645	92.195
Local Assistance Appropriations	13.813		215.529 *	111.210	13.813	326.739
Miscellaneous Appropriations	4.195		4.617	3.866	4.195	8.483
Language Appropriations	0.000		0.000	0.000	0.000	0.000
Non-Budgeted Transfers	2.350		18.040	13.890	2.350	31.930
Continuing Appropriations	0.000		0.000	0.000	0.000	0.000
Supplemental Appropriations	0.000		0.000	0.000	0.000	0.000
FEMA Wildfire Costs	0.000		0.000	0.000	0.000	0.000
Feed Bill Appropriations	0.000		0.000	7.028	0.000	7.028
Anticipated Reversions	<u>(0.505)</u>	<u>(23.720)</u>	<u>(3.001)</u>	<u>(3.026)</u>	<u>(24.225)</u>	<u>(6.027)</u>
<b>Total Disbursements</b>	<b>\$1,105.598</b>	<b>\$1,255.834</b>	<b>\$1,477.257</b>	<b>\$1,332.214</b>	<b>\$2,361.432</b>	<b>\$2,809.471</b>
<b>Adjustments</b>	24.599	(33.725)	0.000	0.000	(9.126)	0.000
<b>Unreserved Ending Fund Balance</b>	<b><u>\$193.040</u></b>	<b><u>\$173.454</u></b>	<b><u>\$101.726</u></b>	<b><u>\$116.549</u></b>	<b><u>\$173.454</u></b>	<b><u>\$116.549</u></b>

\* Included in this amount is a biennial appropriation of \$114.395 million for school block grants.  
It is anticipated approximately 48% of this amount will be expended in fiscal 2002 and 52% in fiscal 2003.